

# IMPROVING FARM TENANCY

R. L. ADAMS<sup>1</sup>

## INTRODUCTION

Approximately one California farm in five is in the hands of tenants. Under existing war conditions, with the shortage of experienced farm help and farm equipment, tenancy is more of a problem than in ordinary times. Landlords with good tenants are striving to keep them. Others face the necessity of revising leasing arrangements in order to attract better tenants or to obtain any tenants at all. This, then, is an appropriate time to seek ways of improving current leasing practices.

Most California agricultural leases can be strengthened in a number of matters. Particularly promising provisions include:

1. More extensive use of the sliding-scale method for fixing cash rents.
2. Encouraging better farming practices (a) by compensating tenants for unexhausted benefits, and (b) by making provision for the keeping of livestock.
3. Reducing the shifting of tenants by use of (a) longer lease terms, (b) larger farms, (c) better housing, and (d) encouraging production of food for tenant families.
4. Investigating reasonableness of increasing tenants' share (in share renting).
5. Promoting better mutual understanding on the part of both landlords and tenants.

## SLIDING-SCALE METHOD FOR FIXING CASH RENTS

This method fixes cash rents in line with selling prices of farm products. At the time of drawing up a lease, a basic rental rate at some stipulated selling price of farm products is provided, with provision for increases in rent as prices rise. The specific rent is determined after farm commodities are sold, in accordance with the actual selling price or the selling prices generally prevailing in the community for comparable products, quantities, and qualities. Payment of rent is thus postponed until some specified future time (such as monthly for dairy and poultry farms; quarterly for livestock, dairy, poultry, and truck farms; annually for field-crop farms, orchards, and vineyards). By this method the rent is closely related to the actual receipts obtained

from the sale of farm products. The net result is a more equitable division of income between landlord and tenant, based on actual earning power.

When the sliding scale is used, due allowances should be made for different kinds of crop or livestock expenses, obtainable yields, and costs of production.

For example: dairies in a given locality pay rent per acre per month in accordance with the monthly average price of milk fat. Thus, if the price is below \$0.30 a pound, rent is \$1.15 per acre per month; if the price is \$0.30 to \$0.39, inclusive, the rent is increased to \$1.31; if the price is \$0.40 or more, rent is \$1.52.

The sliding scale on several cotton-land leases provides for a share rent of 20 per cent if price of cotton is under \$0.10; the share is increased to 21 per cent if price is \$0.10 to \$0.11 and continues with a 1 per cent increase in the share with each cent or fraction thereof increase in the selling price of cotton.

The sliding scale as it applies to a vineyard provides for a share rent of 35 per cent if raisins sell for \$40 a ton or less; 40 per cent if price is between \$40 and \$60; 47.5 per cent if price is between \$60 and \$80; and 55 per cent if price is over \$80.

## ENCOURAGING BETTER FARMING PRACTICES

Compensating Tenants for Required Improvements.--When landlords desire tenants to make improvements or to institute better farming practices, the benefits of which cannot be fully derived by the tenant during his lease tenure, an arrangement should be provided to compensate tenants for any unexhausted benefits remaining at the time they leave. This is particularly important if requests are made for things to be done under a short-term lease. Examples of this are: instituting crop rotations; planting green-manure crops; applying slow-acting fertilizers, or lime; planting alfalfa, fruit trees or vines; clearing, leveling, or terracing land; building fences, constructing ditches or drains; repairing buildings; eliminating perennial weeds; summer fallowing; and preparing the land for next year's crops. The cost of these requirements should be carefully figured and provision made to reimburse the tenant at a stated time or times for benefits denied to him. The nature of the improvements and the basis of compensation are best set by

<sup>1</sup>Professor of Farm Management, Agricultural Economist in the Experiment Station, and Agricultural Economist on the Giannini Foundation.

mutual agreement or at the time of drawing up the lease (or by supplementary memorandum).

If the landlord desires, or the lease requires, hiring more than the minimum and normal amount of hired help needed to operate the farm properly, then the landlord should be prepared to meet all, half, or some other part of the added expense, and not place an unfair burden on the tenant.

Keeping Livestock.--Many California farms could be more fully utilized by adding a few dairy cows, other livestock, or poultry to the farming program. Under suitable conditions there is a chance to increase the output of a farm (particularly by use of purebred stock) and, coincidentally, the obtainable rent, provided the added rent is not offset or more than offset by the necessity of increasing the investment in buildings, fences, and livestock. Lack of suitable buildings and fences, plus insecurity of tenure, often prevents tenants from investing in livestock even though they could finance necessary purchases (in full or in part), know how to handle livestock, have available feed, and would not neglect crops.

#### REDUCING THE SHIFTING OF TENANTS

Insecurity and unstable tenure, which result in frequent shifting of tenants, are serious handicaps to proper farm organization and management. Under most year-to-year leases, tenants cannot feel settled. Moreover, they cannot afford to make much-to-be-desired improvements.

Much shifting of tenants may indicate a need for a longer lease, better living quarters, more adequate income, or an improvement in landlord-tenant relations.

Given equally good tenants, the most successful one is he who knows the property he is farming. The longer a tenant remains on a given property, within reasonable limits, the better equipped he is to operate that property to the best advantage. Time must elapse before a new tenant becomes equally informed. Constant shifting of tenants, therefore, tends to reduce income. It also follows that, as a rule, tenants cannot afford to pay as high rent for the first year as they can after they become acquainted with the farm and are able to increase production and reduce expenses.

Lengthening Tenure Terms.--When a farm property is leased for longer than one year, to be legal, the lease should be written and signed, and notarized and recorded, for a period not in excess of fifteen years, and it should contain evidence of conveyance and acceptance. Even when an oral statement will suffice, a written agreement has definite advantage in that it better protects both parties, lessens chances for subsequent misunderstandings, and encourages more careful preliminary planning of the farm program.

The principal objection to long-term leases is that both parties may be bound for a longer time

than is acceptable to either party or both. In times of increasing land prices, landlords desire freedom to sell; or, in times of increasing rents, to change tenants. Tenants desire to retain the chance to move to a new farm (or to buy a property) when they can better themselves. When agriculture is in a changing condition, neither party is particularly anxious to tie up either farms or services for long terms, unless the long-term lease contains cancellation provisions available to each party.

While no single length of tenure will fit all conditions, probably the one likely to prove most satisfactory is an annual renewable lease which shall remain in force as long as both parties are satisfied. Longer than annual leases could contain a cancellation clause to be invoked under certain conditions and upon sufficient notice. Annual leases could include an automatic renewal clause unless notice of termination is given some stated number of months (usually 2, 3, or 4) before the ending date of the lease. Another method to increase the security of tenants is by use of the compensation-for-disturbance provision. This provision calls for payment to either party for damage or loss caused by unjustified termination of the lease, the basis of compensation being set forth in the lease, sometimes by fixing a specific amount, sometimes by providing for an arbitration board to assess an appropriate sum.

Enlarging the Size of Farm.--Under some conditions enlarging the size of the farming unit will encourage the same tenant to remain year after year provided he has ability, labor, capital, and equipment to justify expansion. Every landlord can well afford to evaluate the size of his present lease or leases with a view to making proper adjustments. Normally there is an efficient-sized farm, whether it be in crops or devoted to dairying, poultry, or some other animal enterprise. To find and institute a size of farm that is neither too large nor too small should be a responsibility of every landlord. This could be accomplished under some conditions by permitting a tenant to lease additional holdings from others.

Better Housing.--Tenants who occupy dwellings erected for and formerly occupied by farm operators usually fare better than those supplied with dwellings specifically built for use under tenant conditions. The better class of tenants, when evaluating a proposed rent or lease, do give consideration to what is offered as housing for the families. A poor dwelling can easily turn away a good tenant. As one means of attracting and holding a desirable class of tenants, landlords should frequently inventory what they are offering, particularly on tenanted units of large farms equipped with buildings erected with the idea that tenancy would prevail. Perhaps there is need for repairs (particularly of foundations and roofs), or for paint, or the addition of a new room, summer kitchen, screened porch, better bathing or washing facilities, better disposal of sewage, and



even some economical method for cooling in summer or heating in winter. It is a thought that has considerable possibilities.

Facilities for Producing Family Foods.--One way to increase the tenant's earnings is by providing facilities for a garden, flock of hens, cow, a hog or two. A well-planned and well-managed garden can be the source of a goodly supply of green vegetables, potatoes, onions, root crops, cabbage, and the like; this will materially reduce purchases and, at the same time, will add to the available food supply. The arrangement might be expanded also to provide the landlord with some of his needs if delivery is not too much of a problem, although this phase should be of secondary importance.

#### INCREASING THE TENANT'S SHARE

Tenants today are facing substantial increases in the wages they must pay for outside help. Farm wages have more than doubled since 1941 and the spring of 1942. Increases have also occurred in prices of seed, fertilizer, spray materials, cost of repairs and repair work, and in the cost of living. Hay, grain, and other feeds that must be purchased reflect substantial price increases. Contract costs of threshing and baling have doubled. These increased costs are placing the tenant under heavier commitments and obligations. On the other hand, land prices are mounting. County taxes, however, do not record any particular change.

Because of the greater expense involved in operating farms, many tenants renting under the share basis are today paying a share for rent in excess of what they would have paid under recent pre-war conditions. These costs have increased sufficiently, so that for many crops and in most localities the share of the crop retained by the tenant should likewise be increased. In comparing costs of 1935-1940 with those of today, to be equitable, the tenant's share could properly be increased where sharing of costs is the basis for fixing rents.

The rates for different crops, in different localities, and for different farms obviously will differ. A few examples, however, are indicative: alfalfa land, where the tenant pays all costs including baling, which under normal conditions calls for one-third share to the landlord, could now call for one fourth; the share of a bean crop, formerly at one third, could be lessened to one fourth; the tenant's share of cotton could be increased from the former 75 per cent to 80 per cent. Other increases in the tenant's share, in terms of percentage increase of the present share, are indicated as follows: rice, 15 per cent; sugar beets, 30 per cent; apricot orchards, 15 per cent; grape vineyards (all varieties), 25 per cent; peach orchards, 10 per cent; prune orchards, 20 per cent; truck crops, average of 10 per cent, but varying from 5 per cent (for potato land) to 16-2/3 per cent (for pea land). Tomato land may justify a 10 per cent increase in the tenant's share.

The percentages and recommendations outlined above assume that shares paid as rent during normal times are fairly correct. There is evidence indicating that this condition does not always hold, some tenants paying more, some less than conditions actually justify. Now is a good time to review all share rentals and to make adjustments that will be fairer to both parties.

It is true that today many tenants can pay their rents even if these are out of line with what is fair, because prices being paid for most farm commodities are at relatively high levels under the artificial stimulus of war conditions. This condition applies especially to tenants who hire but little outside help.

#### MUTUAL GOOD WILL

Landlord-tenant relations should be in fact (though not legally) a working partnership, especially when each can bring to bear worth-while training and experience. Retired farmers who are now landlords usually possess real information concerning enterprises and farming practices best suited to a given property. Their advice and counsel can be especially valuable to tenants who are either new to the community or to farming. Some landlords have had business experience that can be turned to good account: they may have access to and knowledge of wise and economical use of credit; ability in buying supplies and selling products. Likewise, tenants can frequently contribute suggestions from their experience that can be mutually advantageous, particularly to landlords who are unfamiliar with agriculture and all that farming implies.

The thought here expressed is to suggest pooling for mutual advantage the combined knowledge and experience that each party can contribute.

The essence of harmonious relations is based on mutual faith, honesty, fair play, and cooperation, coupled with demands that are both reasonable and fully understandable.

Visits by landlords to rented or leased properties are necessary, but may become a nuisance to the tenant. Hence, their frequency should be limited to what is required for proper supervision or inspection. Landlords who unnecessarily frequent the farms, particularly if they interfere with the work of the tenant, can become irritating, and whatever good they might otherwise do is either reduced or entirely eliminated.

#### CONCLUSION

Most of the proposals in this paper are based on the assumption that ownership of tenanted farms will remain under the same landlords. Some proposals, however, may not be practicable where foreclosed or repossessed farms held pending sale or for other reasons are tenanted temporarily. Proper leasing can find its best expression only when a property is under a tenant-landlord relation that is expected to continue. Otherwise neither party will give to the silent partner in the deal--the land--its proper consideration.

These days of pressing need to increase production of various crops, livestock and livestock products, and eggs and poultry, place great responsibilities upon both landlords and tenants. Any step that will help to achieve maximum production will be a service not only to the parties directly concerned, but to the nation as a whole.

To sum up, the essentials of a successful lease arrangement are: (1) a suitable farm--one

which is large enough to yield a good living to the tenant, some returns on his investment, and a fair profit, and, at the same time, permit payment of a fair rent; (2) right choice of tenant and landlord; (3) a thorough understanding of what each party is to supply or pay for; and (4) a cooperative and cordial attitude in meeting various contingencies that may arise.